

Hamidullah's
Pioneering Contributions
to
Islamic Economics

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Abstract. Dr. Muhammad Hamidullah (1908-2002), a citizen of the world, was born at Hyderabad (Deccan), lived in Paris and died in Jacksonville (USA). He is widely known across the Islamic world, in the Indian subcontinent and in Europe and North America for his seminal and outstanding contributions to the advancement of Islamic studies and to the dissemination of Islamic teachings. He rediscovered and edited a number of rare manuscripts. He made pioneering contributions to various disciplines of Islamic learning. His inputs to Islamic economics is also remarkable. However, almost all his biographers overlooked this aspect of his contribution. To this forum we present some of his important Islamic economic ideas.

Innovation of the term “Islamic Economics”

It may be recorded that Hamidullah used the term "Islamic Economics" in his paper - *Islam's Solution to the Basic Economic Problems* (p. 217) - as early as in 1936. This is the first use of this term to the extent of finding until this date. It will not be surprising if someday it is discovered that the term occurred much earlier in some of the works authored in the first quarter of the 20th century. In one of his papers Monzer Kahf attributed the first use of the term "Islamic Economics" in 1947 to Manazir Ahsan Gilani (Kahf, M. "Relevance, Definition and Methodology of Islamic Economics" p.16.

http://monzer.kahf.com/papers/english/methodology_malaysia.pdf
Visited on 15.6.2011).]]

Hamidullah's First Work on Islamic Economics

Perhaps the first paper written by Hamidullah on Islamic economics is "Islam's Solution to the Basic Economic Problems – the Position of Labour", which was published in *Islamic Culture*, Hyderabad (Deccan), in 1936. He starts the paper with a criticism on '*laissez faire*'. He discusses inadequacy of the concept like any skilled professional economist. He shows how Islamic economics is different from *laissez faire* economics (p. 214).

Not only capitalistic *laissez faire*, he also criticizes in this paper the communists, the so-called champions of labourers, for advocating payment of equal amount to all irrespective of quality and quantity of labour because this will kill the incentive to work and loss of efficiency (p. 218).

As against communistic and socialistic slogans, to Hamidullah, "the Islamic formula of distribution seems to be: to the poor according to their needs, to the rich according to their services" (Islam's Solution to the Basic Economic Problems, p. 231). He emphasizes:

"Economic History has plainly demonstrated that both *laissez-faire* and Socialism are untenable extremes. For efficient and equitable Economics the elimination of their defects and a proper balance of the two, such as Islam offers, seems well worth considering" (p. 233).

Hamidullah on economic crisis

In the opinion of Hamidullah, the most important feature of Islamic economics is that its operation eliminates economic fluctuations altogether (Islam's Solution to the Basic Economic Problems, p.220). These days we are passing through worst kind of financial crisis. One of the most important factors behind this crisis is excess lending. Dr. Hamidullah warned about it some seventy-five years ago. He says:

"People begin to produce more with borrowed money and to start new concerns, again with borrowed money. For a *time* there are profits. A wave of optimism spreads. Lending institutions become overconfident and lend more and more to the speculators and to

the less competent enterprisers coming into business. Very soon the credit bubble expands to its full capacity. More money gets involved in production and comparatively little is left with the consumers, so there is a shortage of purchasing-power and pressure on the 'prices to go down" (p.220).

He further shows how borrowing on interest creates conflict of interests and results into financial crisis (p.221). He says:

"The disease is only of the essence of the institution of lending on interest. Islamic capitalistic economy eliminates lending on interest but retains capitalism and thus gets rid of all crises" (p. 222).

Prohibition of riba needs arrangement for interest-free lending

According to Hamidullah, all religions have prohibited *riba* (usury and interest). However, "It is evident that mere prohibition of interest does not suffice to eradicate it, if provisions are not made to organize institutions for interest-free lending on a nation-wide scale" [Haidarabad's Contribution... p.74]. He observes:

"The distinctive trait of Islam is that not only has it forbidden this kind of gain, but it has also remedied the causes leading to the existence of this evil institution in human society" [Eco. System of Islam, pp. 130-31] "Public Treasury organized interest-free loans, in addition to and for supplementing the loans offered by charitable men or organizations, to help those who are in need of them. The principle is mutual aid and cooperation". [Eco. System of Islam, p. 131]

He says that Lord Keynes pleaded for 0% interest, but even the economists of his homeland did not take it seriously (pp. 16-17). In his opinion, there are three ways to fight interest: Nationalization of lending, using endowments (*awqaf*) for lending purpose, and establishment of cooperative and mutuality societies for this purpose. To him the last one is more easy and effective in implementation. It can meet the needs of individuals as well as governments ("Bunuk al-Qard bidun Riba" p. 21)

Risk-sharing, not the risk-shifting

Today it is much emphasized that the financial crisis may be avoided if instead of shifting risks to others, risk sharing is adopted in financing the projects. It is noteworthy that Hamidullah stressed risk sharing long ago while discussing the reason for prohibition of interest. He argues:

"The basis of the prohibition of interest is also the unilateral risk. In games of chance and lotteries, there is a great temptation for quick and easy gain, it is possible that circumstances should not have been propitious enough for earning sufficiently to be able to pay the promised interest, the lender not participating in the risks of the exploitation." [Eco. System of Islam, p. 131].

While discussing Islamic banking he says:

"If the bank participates in the profit of its debtors as well as in their risks, Islam allows such banking activities, otherwise not." [Economic System of Islam, p. 132].

Describing the negative impact of fixed charge on money borrowed for production purpose, he observes:

"If you have spare money you can become a partner or purchase a share and partake of both positive and negative profits. You are not allowed to give a blow to the entrepreneur in his worst moment and destroy his resisting power and not only ruin him but create social havoc. There is the huge injustice in the institution of interest and the strong tendency to get out of control" (Islam's Solution to the Basic Economic Problems, p. 223). In his opinion there is no argument for interest (ibid.).

Banks should replace interest with unconditional-gifts to attract deposits

Hamidullah feels there is no Shariah prohibition if unconditionally and without predetermined amount, the bank pays certain extra amount to its depositors. He observes:

"Confidence is born of confidence. If the savings banks of a government declare at the end of the year (and not at its beginning) that they are in a position to pay such and such percentage of profit to the clients, not only would this be lawful

according to Islam, but the public also would have no hesitation in depositing its savings with governmental banks, in spite of the silence in the beginning with regard to the quantity of the expected profit. For one has confidence in the public administration." [Economic System of Islam, p. 132].

Perhaps he keeps in his mind the report that without prior fixing, the Prophet returned extra amount and said "The best of you is one who is better in repayment". However, the Islamic economists do not agree because once it becomes a custom, it is just like a fixed and conditional. Their view is based on the principle "Something commonly known is just like a condition"

Postponement of Diminishing returns in agriculture

Hamidullah wrote in this paper briefly on agriculture. However, he proposed to write a separate paper on this aspect of the economy (Islam's Solution to the Basic Economic Problems, p. 224). It could not be traced whether he did it. Agriculture which is known for the law of diminishing returns, he predicted:

"employment of powerful machines and adequate chemical manures may overcome Nature's resistance, and indefinitely postpone the operation of the law of diminishing returns" (p. 225).

First written record of Islamic banking

In 1962, during his stay in Istanbul, Hamidullah published a paper entitled "*Bunuk al-Qard bidun Riba*" (Interest-free Lending Banks), in *al-Muslimun*, (Damascus: vol. 8, no. 3, Dec. 1962, pp. 16-21.) in which Hamidullah gave an account of the modus operandi of the first established interest-free lending society in Hyderabad, Deccan. It is known from his another article that it was established as early as 1891 (Haidarabad's Contribution ... p. 74). It was established by a sufi called Sayyid Umar Qadiri. Following is an account of this foundation:

"His friends and disciples used to deposit with him, for his honesty, their surplus money for safe custody. He obtained their permission to utilize these amounts for lending to those in pressing need, for determined periods, on production of dependable securities (like

ornaments etc.) He also added to the "capital" the amount he used to receive from his disciples to disburse at his discretion on charitable purposes: particularly the hides of sheep sacrificed during the `id al-adha feast every year. The society still continues and thrives." (Haidarabad's Contribution ... p. 75).

At the time when he wrote the paper, the society was working and flourishing under the founder's son Muhammad Badshah Qadiri ("Bunuk al-Qard bidun Riba" p. 19).

Hamidullah has given account of another organized interest-free society established in 1902 under the name *Mu`in al-Muslimin* society. This society existed until 1914, and transacted in hundreds of thousands of rupees. (Haidarabad's Contribution ... p. 75). After the First World War, the Hyderabad state paid attention and following the same model organized a similar society for the government employees.[ibid]

International Monetary Fund for Muslim Governments

On the same pattern, he proposes establishment of an international monetary fund for Muslim governments so that they could be saved from begging "aids" from other countries and falling their prey of interference and meddling in their affairs ("Bunuk al-Qard bidun Riba" p. 21).

In one of his earliest papers in Urdu entitled "Anjumanha-e-Qarzah-e-besoodi" (Interest-free Loan Societies), which was published in *Ma`arif* (Azamgarh: vol.53, no. 3, March 1944, pp. 211-16.) Hamidullah gives an account of interest free lending societies in Hyderabad. He states that, some people have surplus money, while some others are in deficit. It is humanistic to help one's needy brother. But very few people would be ready to do this 'painful good deed' without charging anything in return. That is the reason that all religions and past civilizations prohibited charging interest (p. 212). Islam not only prohibited interest, but also provided means to abolish it altogether and ordered that a part of government revenue should be allocated to help the indebted. As a proof, he presents the verse which stated the heads of expenditure of zakah: "Surely (the government revenue) zakah (etc.) are meant for the poor, the needy, the collecting officers, reconciliation of hearts, freedom from captivity, and indebted" Hamidullah argues that since the poor and

needy have been mentioned in the beginning of the verse, the 'indebted' does not refer to starving poor. Rather it means 'the well-to-do' who is temporarily in need of finance (ibid. p. 213).

According to Hamidullah, "Islam is the first system to lay down the provision of interest-free loans for the needy, even the well-to-do" (p.19). This is so because "Mere prohibition of interest, without providing how to meet the requirements of the needy, has proved useless in all civilizations. Islam was the first to lay down that it is among the first duties of the State to provide interest-free loans for the needy, even for well-to-do; and the Qur'an has earmarked this item among the expenditures of the Muslim State. In the time of the Caliph Umar, the State treasury lent moneys even to the person of the Caliph himself - of course to others also - on providing security of repayment." ("*Bunuk al-Qard bidun Riba*" p. 20)

In *Islamic Quarterly* vol. 2: 142-45, 1955, Hamidullah reviewed DR. J. HAN's work *Homo Economicus Islamicus*, publishers Joh. Sen, Klagenfurt, Wien (Austria), 1952. In his review he says:

"There is a very important lesson for Muslim countries to learn from the war-torn Western countries, like Germany, France, England, &c., as to how they have adopted intricate and ingenious methods to finance and to cope with their empty hand."

"The interest-free lending was also not wanting, though in more modest proportions. It began in the last century in Hyderabad, and later developed into co-operative lending societies, with affairs running yearly in some cases into six figures. Its members were not exclusively Muslims. One such, the Interest-free Co-operative Lending Society of the Department of Survey and Settlement in Hyderabad, has been revived now after the occupation, by the non-Muslim director of this department!"

Mutual and cooperative financing

Hamidullah stressed on micro-financing based on mutuality and cooperation:

"Islam has ordered that one of the charges on State income is the obligation of helping those who are heavily charged. Hence, the Public Treasury organized interest-free loans, in addition to and for supplementing the loans offered by charitable men or organizations, to help those who are in need of them. The principle is mutual aid and cooperation." [Economic System of Islam, p. 131].

It may be noted that at present some scholars, unsatisfied with the existing state of art of Islamic banking, propose establishment of Islamic banking, especially the microfinance, on the basis of mutuality.

Islam and Communism

An important monograph of Hamidullah is entitled *Islam and Communism: A Study in Comparative Thought*. In this he examines various aspects of communism and Islamic stand towards them.

In the beginning of the paper he makes clear:

"Although Islam and Communism are not the same thing, it is possible that they do not differ in each and every thing. The object of this short study is to find out how far Islam may tolerate the teachings of Communism." (*Islam and Communism*, p.3)

"Economic betterment is the common goal, the ways leading thereto may differ. The pros and cons are to be weighed against each other before making the choice." (*Islam and Communism*, P.1)

"The past history of man shows that every advance and every discovery of the means of comfort came into existence through competition and desire for amelioration and also through the existence of grades of wealth or poverty among men one above the other" (Ibid. P. 2).

Various forms of communism

According to Hamidullah there are various forms of communism. "The question, how far Islam accommodates Communism, however, cannot be so easily disposed of. There is Marxism, there is Leninism, there is Stalinism, there is Titoism, there is Maoism of Mao Tse Tung in our times, not to speak of Mazdakism and Abu Dharrism, etc., of the days of yore" (*Islam and Communism*, p.4)

He examines in this paper the Communist State and its attitude towards Religion. " According to Section 124 of the Constitution of the U. S. S. R., "freedom of religious worship and freedom of antireligious propaganda is recognized for all citizens." He further remarks:

"I do not know the official interpretation, yet it means to me that preaching and propagation is allowed to the anti-religious only. Mere freedom of religious worship without means of religious instructions and apologetical or polemical propaganda for the followers of religious, particularly Islam, does not imply much" (pp.4-5).

After quoting statements from Marx and Lenin, Hamidullah concludes:

"a true Communist cannot believe in God or His Messengers and His commands, and the Hereafter" (ibid. p. 5). To a communist, man is but "a tool-making animal", a definition extolled by Karl Marx himself in his *The Capital*" (p. 6). He emphatically says: Islam cannot and does not accommodate such a state of things. The profession of Islam begins and ends with the belief in One God and His Messengers, in the finality of this world and the Resurrection of the dead for Divine Judgment" (ibid. P. 6).

Dealing with the political aspect of communism, Hamidullah gives his own political thought. He examines the idea of a single "World State", world political system, world capital, separation of church and state, etc. pp. 6-9. Finally, he concludes that the "Political doctrine of Communism offers no difficulty for Islam" (P.9). However, he makes clear that. Statecraft or politics, even when separated from religious office, do not become independent of, but continue to remain subject to the provisions of the Qur'an and the Sunna. It is only a separation of

officers, not separation of authority, which is derived only from God." (ibid). The main difference between Islam and communism is that Islam emphasises more on the moral aspect than on the economic one. pp.10-13

According to Hamidullah, Materialism has been responsible for the degeneration of Capitalism. Similarly, "Communism, that is collective ownership of the means of production, may as such not lead to anything unbearable what I fear for it is its alliance, or rather conspiracy, with materialism" (P. 17). He makes clear that "In normal times, Islamic polity makes least interference in the economic freedom of individuals. Free trade is its motto, though cut-throat and unfair competition is not allowed. In abnormal times, in periods of need and emergency, the interference proportionately increases" (p.18).

In the discussion of the etymology of the Western and Islamo-Arabic equivalents (*socialism* and *ishtirakiyah*), it is noteworthy that in 'socialism' the emphasis is merely on the question of belonging to a society, which may be hierarchic; whereas the Arabic word is more expressive, meaning sharing, participating with others. He further says:

"Capitalism, in its good sense, is allowed in Islam with the condition that the minimum taxes suffice for the dual purpose of the State, namely feeding all the destitute and defending the integrity and independence of the realm. Yet in time of need, Islam goes even beyond Communism, and orders that leaving the just necessary for preserving one's life (*sadd ramq*), all one's property may be confiscated as tax for the purpose of the dual State duty mentioned above. Islam has all along had a moral basis also" (ibid. p. 19).

Social insurance of the community

At the end of this paper he points out that "From the time of the Prophet, we come across a sort of social insurance of the community, insurance against tort entailing payment of damages beyond individual capacities. This insurance was called *Ma'qil*" (p. 20). However, he does not explain it. This he has explained in his paper "The Economic System of Islam" (p.128). He notes that in the time of the Prophet, 'insurance against captivity and against assassination' had received attention" Thus, in the Constitution of the City-State of Medina of the first year of the

Hijrah, this insurance is called *ma`aqil* and it worked in the following manner:

If someone was made a prisoner of war by an enemy, payment of ransom was needed to procure his liberation. Similarly, all bodily torts or culpable homicides required payment of damages or blood money. This often exceeded the means of the individual concerned, prisoner or criminal. The Prophet organized an insurance on the basis of mutuality. The members of a tribe could count on the central treasury of their tribe, to which everybody contributed according to his means. And if the treasury of the tribe proved inadequate, other related or neighbouring tribes were under obligation to render aid. A hierarchy was established for organizing the units into a complete whole. At Medina, the tribes of the Ansarites were well known. The Prophet ordered the Meccan refugees there, who belonged originally to the various tribes of Mecca, or were Abyssinians, or Arabs belonging to different regions, to all constitute a new "tribe" of their own, for purposes of the said social insurance." "In the time of the caliph 'Umar, the branches of insurance were organized on the basis of the profession, civil or military administration, to which one belonged (or even of regions). Whenever needed, the central or provincial government came to the succor of the branches"

The idea of insurance based on 'mutuality'.

He presented the idea of insurance based on 'mutuality'. He observes:

"Insurance signifies essentially the repartition of the burden of an individual on as many as possible, in order to lighten the burden of each. Instead of the capitalistic companies of insurance, Islam preferred organising insurance on the basis of mutuality and cooperation, aided by a pyramidal gradation of the branches culminating in the central government" (ibid, p. 129).

He further writes:

"Such a branch could engage in commerce with the help of unutilized funds remaining at its disposal, so that the capital is augmented. A time might come, when the members of a branch could be fully exempted from paying further contributions, or might even receive amounts of the profits of commerce. It goes

without saying that these elements of mutual aid could insure against all kinds of risks, such as accident of traffic, fire, loss in transit, and so on. Also, it goes without saying that the insurance business is capable of being "nationalized" for all or certain kinds of risks (i.e. temporary motives such as the dispatch of parcels, etc.) "(Economic System of Islam, p. 129).

On the same pattern he saw the possibility of establishing banking on mutuality, in which "members paid a small percentage monthly towards expenses of the establishment, like stationery (the staff consisting of honorary workers). The surplus of this was preserved as reserve fund, to cover unforeseen losses. This reserve fund was later put to enhanced utility: a store as organized on commercial basis, where members of the society purchased on credit their requirements in non-perishable goods. The benefit was used to remunerate the workers and also to strengthen the reserve fund further." (Haidarabad's Contribution ... p. 75).

Evils of conventional insurance

Dr Hamidullah is against the conventional insurance. To him it "falls under the same prohibition as interest. One sided risk and gain without proportionate responsibility in such a commercial contract are reasons thereof." (Haidarabad's Contribution . p. 76). In his note "Islamic Insurance", *Islamic Review*, London, vol. 39, nos.3-4, March-April 1951, 45-46, Dr. Hamidullah has elaborated how Islamic insurance system can be established on the basis of 'mutual co-operation'.

At another occasion he likens it with the game of chance. He observes: "Without entering into technical details, it may be pointed out that capitalistic insurance, in which the insured person does not participate in the benefits of the company in proportion to his contributions, is not tolerated in Islam as this would constitute a form of game of chance." [Eco. System of Islam, p. 129].

He is in favour of "an insurance company, not on capitalistic but mutuality basis." (Haidarabad's Contribution . p. 76). He presented an example of mutuality based insurance which was practiced by the army in Haidarabad. When number of motor vehicles increased in Haidarabad and more accidents occurred, the *Majlis 'Ulama* suggested to mutualize insurance, instead of leaving it to usurious capitalists (ibid.).

International Monetary Fund for Muslim Governments

In his note "A Suggestion for an Interest- free Islamic Fund", *Islamic Review*, London, vol. 43, no.6. june.1955, p.11, Dr. Hamidullah suggests establishment of Islamic Monetary Fund on the pattern of IMF but interest free. He says:

"Today not only private citizens but even governments are in constant need of borrowing money, in millions and billions, to finance programmes of construction and other developments. There is an international monetary fund in America; yet as could be expected, it is not interest-free. An Islamic monetary fund could and should be established, yet not in any spectacular way and not even despising the modesty of its start".

He gave the idea of IDB long ago in 1955 in his note "A Suggestion for an Interest- free Islamic Fund", *Islamic Review*, London, vol. 43, no.6. June. 1955, p. 12. He insisted that in such an institution Muslim Governments of Soviet Union should also be included: "There is no reason why even Turkestan, Azerbaijan, Kazan, etc., should not join this fund (ibid).

The economic policy of Islam with respect to distribution

In Chapter ten of his work *Introduction to Islam* Dr. Hamidullah discusses economic policy of Islam with respect to distribution. He says:

"The economic policy of Islam has also been explained in the Qur'an in the most unequivocal terms: ". . . so that this (wealth) may not circulate solely among the rich from among you. . ." (Q. 59 : 7)

"Equality of all men in wealth and comfort - even if it is ideal - does not promise to be of unmixed good to humanity. First because natural talents are not equal among different men, so much so that even if one were to start a group of persons with complete equality, the spendthrift will soon fall into difficulties and will again look on the fortune of his comrades with greed and envy. Further, on philosophic and psychological grounds, it seems that in the very interest of human society, it is desirable that there should be grades in wealth, the poorer having the desire and incentive to work

harder. On the other hand, if everybody is told that even if he works more than what is required of him as his duty, he would get no reward and would remain as those who do not do more than their duty, then one would become lazy and neglectful, and one's talent would be wasted to the great misfortune of humanity" "The Economic System of Islam" p. 121.

Suggestion to use the right of testament to implement Islamic law of inheritance

According to Hamidullah, "Islam has taken two steps: firstly the obligatory distribution of the goods of a deceased person among his close relatives, and secondly a restriction on the freedom of bequest through wills and testaments. The legal heirs do not require any testamentary disposition, and inherit the property of the deceased in the proportions determined by law. A testament is required solely in favour of those who have no right to inherit from a deceased person." However, " In countries where the Islamic law of inheritance is not applied by governments, yet the right of testament is recognized, the Muslim inhabitants can (and must) utilize this facility, in order to fulfill their religious duty with regard to the disposition of their property after their death."

"... the right of testamentary bequests is operative only within the limits of a third of the property, in favour of persons other than creditors and heirs. The aim of this rule seems to be two-fold: (1) To permit an individual to adjust things, in extraordinary cases, when the normal rule causes hardship; and a third of the property is sufficient for fulfilling all such moral duties. (2) Another motive of the law of the will is to prevent the accumulation of wealth in the hands of a few, a thing which would happen if one should give all this property, by will, to a single person excluding totally one's near relatives. Islam desires the circulation of wealth among as large a number of people as possible, taking into account the interests of the family."...

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